OSC

ONTARIO SECURITIES COMMISSION

Annual Report 2006

Fair
Efficient
Effective
Regulation

ONTARIO SECURITIES COMMISSION PROFILE

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission (OSC) administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown Corporation accountable to the Ontario Legislature through the Minister responsible for securities regulation.

Vision

Canadian financial markets that are attractive to domestic and international investors, issuers and intermediaries because they are cost-efficient and have integrity.

Mandate

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity.

Approach

- Proactive, innovative and cost-effective in carrying out our mandate
- Fair and rigorous in applying the rules to the marketplace
- Timely, flexible and sensible in applying our regulatory powers to a rapidly changing marketplace

For more information on the OSC, see www.osc.gov.on.ca

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Stakeholder Satisfaction Survey

Ipsos Reid conducted the fourth wave of the biennial stakeholder satisfaction research on behalf of the Ontario Securities Commission (OSC) from March 7 to April 14, 2006. The purpose of this research was to measure satisfaction with aspects of interaction with the OSC among stakeholders, track changes in perception from previous surveys and understand opinions on new issues of interest. The study was comprised of surveys of four stakeholder groups: registrants, reporting issuers, Inquiries Line users and the general population. Certain results are presented throughout this annual report.

For detailed survey results, go to www.osc.gov.on.ca.

106-07203/

KEY ORGANIZATIONAL GOALS

Provide fair, vigorous and timely enforcement

In our enforcement activities, we will treat all market participants fairly and with integrity, employing consistency in our approach and sanctions. A vigorous and timely enforcement presence is critical to protect investors, to deter undesirable behaviour and, when necessary, to remove participants from our capital markets who do not comply with securities laws.

Take actions to better understand and address the needs of the retail investor

We will work to improve our understanding of the concerns and priorities of retail investors and be more responsive to their needs.

Promote a harmonized, simplified and strengthened securities regulatory framework for Canada

Following the lead of the Government of Ontario, we will cooperate with our regulatory counterparts and market participants to strengthen the Canadian securities regulatory system.

Work to achieve appropriate regulatory integration of North American and global capital markets

The securities industry operates within a global marketplace where capital moves rapidly across international borders. We will work to enhance the global competitiveness of our capital markets as well as foster cooperative relationships with other securities regulators and standards setters.

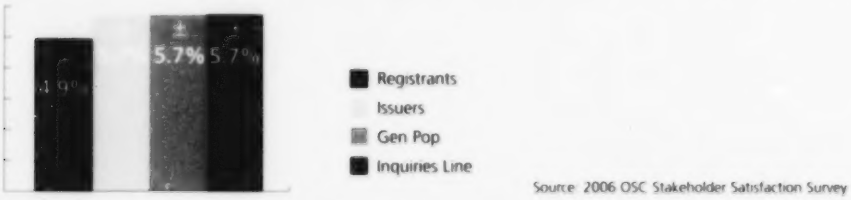
Support and promote a more flexible, efficient and accountable organization

We expect OSC Commissioners and employees to maintain the highest standards of conduct and personal integrity and to deal openly and fairly with all of our stakeholders. We need to continuously enhance our business competence and effectiveness.

The OSC has identified five key organizational goals related to enforcement, retail investors, regulatory harmonization, international regulatory cooperation and organizational accountability. This annual report identifies and describes these five goals as important priorities to fulfill our mandate.

For further details on the strategies related to achieving our organizational goals, please read the OSC Statement of Priorities for Fiscal 2006/2007 and a report on our progress against the priorities for 2005/06 in the 'Governance & Accountability' section of www.osc.gov.on.ca.

A total of 400 registrants, 300 reporting issuers, 300 Inquiries Line users, and 300 general population investors were randomly interviewed by telephone. The margin of error associated with each survey is represented in the following chart:



Source: 2006 OSC Stakeholder Satisfaction Survey

Some of the questions were new to the 2006 survey, others have been tracked since the first OSC Stakeholder Satisfaction Survey in 2000. To assist with the explanation of the responses of the four groups of stakeholders, the groups are colour-coded in the accompanying charts to identify their particular responses.

David Wilson
Chair, Ontario Securities Commission

I am delighted to be part of the team at the Ontario Securities Commission and contribute to fulfilling its mandate. In my first annual report message as Chair, I want to set out our organizational priorities and express our firm commitment to being an accountable and effective regulator.

One of the most important things I have observed about the OSC from the outset is the tremendous dedication of Commissioners and staff to a common objective: to provide fair, efficient and effective securities regulation for Ontario's capital markets. We recognize that these three characteristics are necessary in achieving a regulatory regime that meets our mandate to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity.

As a regulator, the Commission performs three important functions: developing rules and policy, enforcing rules and regulations and adjudicating cases. In carrying out these functions, we must maintain a careful balance as we seek to maintain trust in the markets.

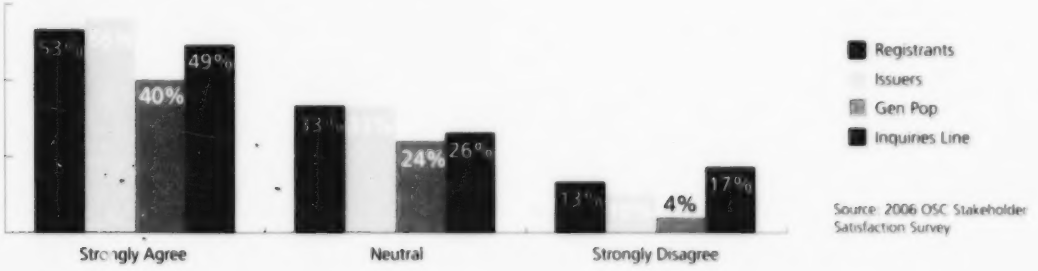
On the one hand, it's vital to ensure that the rules protect the market from the dishonest few. At the same time, we don't want to add undue burden on the creativity of the private sector to generate wealth. This balance also requires the effective and vigorous enforcement of the rules in order to support a robust regulatory framework.

Our objectives are clear. We are determined to achieve similar clarity in accounting for how well we perform our core functions. That is why this annual report uses metrics from the fiscal year ended March 31, 2006, to measure our performance against key organizational goals related to enforcement, retail investors, regulatory harmonization, international regulatory cooperation, and organizational accountability.

One of the most important ways the Commission seeks to build trust is by providing fair, vigorous and timely enforcement. Our Enforcement Branch makes a big difference by working to prevent, detect and deter market abuses. At the same time, other OSC Branches contribute to the enforcement presence, in areas such as compliance and continuous disclosure reviews. We also recognize that enforcement is not a task that any one organization can accomplish by itself. That's why it's a priority to cooperate with other regulators, government and law enforcement agencies.

Regulation of the Capital Markets

The OSC is a fair, balanced and effective regulator.



Source: 2006 OSC Stakeholder Satisfaction Survey

From left: Vice-Chair Paul M. Moore, Chair David Wilson, Executive Director Charles F. Macfarlane, Vice-Chair Susan Wolburgh Jenah

Many of the OSC's priorities are shared by the other provincial and territorial securities regulators. We work closely with our counterparts across Canada, primarily through the Canadian Securities Administrators (CSA). Together, we are working to harmonize and streamline the regulatory regime – a job that requires a significant degree of cooperation.

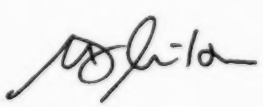
Similarly, we have common concerns with securities regulators in other countries. International cooperation is particularly important on cross-border enforcement issues. We will continue to collaborate with other regulators, especially the U.S. Securities and Exchange Commission (SEC), to help foster the integrity of global capital markets.

Addressing the needs of retail investors is another priority. To improve our understanding of the concerns of retail investors, we seek their input through various channels, including the OSC's Investor Advisory Committee. By encouraging consultation, we can effectively engage retail investors in helping to enhance the regulatory process.

For a public sector organization, one important way to evaluate your performance is to survey stakeholders about your services. In 2006, we commissioned the fourth biennial Stakeholder Satisfaction Survey, conducted by Ipsos Reid. Many of the principal findings of the independent study are featured throughout this report.

Finally, I would like to thank our departing Executive Director, Charlie Macfarlane, for his contribution to the OSC. I also want to thank the Commissioners, Vice-Chairs and staff for their hard work and commitment. I look forward to working with them to meet the challenges of providing fair, efficient and effective regulation of the capital markets.

Sincerely,



David Wilson
Chair, Ontario Securities Commission

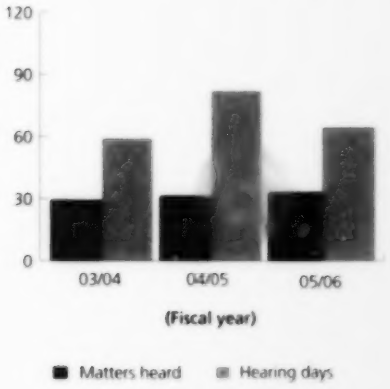
"One of the most important ways the Commission seeks to build trust is by providing fair, vigorous and timely enforcement."

WEB To read detailed findings of the 2006 OSC Stakeholder Satisfaction Survey, go to the Accountability page of the 'Governance & Accountability' section of www.osc.gov.on.ca.

THE COMMISSION

The Commission has adopted a Charter of Corporate Governance to delineate its roles and responsibilities and to ensure transparency in its governance structure. Members of the Commission are responsible, individually and collectively, for performing the duties set out in this Charter, as well as any additional duties necessary to fulfill our governance and regulatory responsibilities.

Hearings before the Commission



"Members of the Commission are steadfast in their commitment to promoting a culture of accountability, integrity and ethical conduct throughout the OSC, while fostering robust and transparent governance structures."

Commissioner Robert Shirriff, Lead Director

The Ontario Securities Commission (OSC) is a self-funded Crown Corporation accountable to the Legislature through the Minister responsible for securities regulation. The *Securities Act* establishes the Commission's mandate and role in regulating capital markets. The Commission's accountability to the Minister is set out under the Act and in a Memorandum of Understanding that describes the responsibilities of the Minister, OSC Chair and Members of the Commission. Furthermore, the Commission has adopted a Charter to delineate its role and responsibilities and to ensure transparency in its governance structures.

As a regulator, the Commission exercises its responsibilities through rule- and policy-making, enforcement and adjudicative functions. The Commission adopts rules and policies following a statutory process that provides an opportunity for public comment and requires delivery of the rules to the Minister for his consideration. These rules set the required standards for market participants and influence their behaviour. The Commission sets regulatory priorities and oversees their implementation by staff. Members apply their expertise in areas such as securities law and accounting in making key decisions involving policy initiatives.

The Commission, as a whole, has responsibilities to oversee the OSC's adjudicative processes and procedures generally. Panels of Members, acting independently, hear enforcement matters, conduct hearings involving regulatory policy issues, conduct appeals of adjudicative decisions of self regulatory organizations and review decisions of staff. The OSC Chair does not sit on adjudicative panels but oversees enforcement operational decisions. During the 2005-06 fiscal year, panels heard a total of 34 matters over 67 hearing days.

As the Board of Directors, Members oversee the management of the OSC's financial and other affairs. In this regard, the Commission recognizes the importance of its independence. As required by the *Securities Act*, the Chair of the Commission is also its CEO. Therefore, the Commission appoints a part-time, non-executive Member as Lead Director to foster independent oversight of the Board. The Lead Director is responsible for overseeing the operations of the Board to ensure that it fulfills its responsibilities effectively. Acting in consultation with the Chair and committee chairs, the Lead Director oversees the Commission's corporate governance practices to ensure that the Commission continues to be governed by the highest principles.

(Seated from left) Paul Moore (Vice-Chair), David Wilson (Chair), Susan Wolburgh Jenah (Vice-Chair)
(Standing from left) Harold Hands, Carol Perry, Paul Bates, Wendell Wigle, Robert Shirriff (Lead Director), Robert Davis, Suresh Thakrar, David Knight
Absent: Theresa McLeod, Patrick LeSage

To exercise its responsibilities as a Board, regular meetings are held of both the full Board and three standing committees: Audit and Finance, Corporate Governance and Nominating, and Compensation. The Board held four regular Board meetings and seven special meetings in 2005-06. To exercise its responsibilities as a regulator, the Commission holds biweekly policy and rule-making meetings, regular meetings of the Adjudicative Committee and conducts hearings.

Each Member is appointed by the Lieutenant Governor in Council for a fixed term. One term cannot exceed five years; however, a Member may be reappointed. Members, acting as a Board and working with the Public Appointments Secretariat, have a formalized process to ensure the Board has the appropriate skills needed to guide the Commission in pursuit of its mandate.

The Commission is aware that its own governance practices should be robust, transparent and, where applicable, conform to the best practices advocated for public companies. Moreover, Members strive to adhere to the highest standards of ethics and integrity, promoting a culture of transparency and accountability at the Commission, guided by the Commission's by-laws and Code of Conduct.

The 'Governance and Accountability' section of www.osc.gov.on.ca contains a detailed description of the Commission's governance structure, including its Charter, the Member Profile, as well as biographies of individual Commissioners.

THE COMMISSION

As at March 31, 2006

Lead Director	Audit and Finance Committee	Compensation Committee	Governance and Nominating Committee	Adjudicative Committee
Robert Shirriff	**David Knight, Chair**	**Paul Bates, Chair**	**Suresh Thakrar, Chair**	**Paul Moore, Chair**
	Theresa McLeod	**Robert Davis**	**Paul Bates,**	**Patrick LeSage**
	Carol Perry	**Harold Hands**	**Robert Davis**	**Theresa McLeod**
	Robert Shirriff	**David Knight**	**Harold Hands**	**John Stevenson***
	Suresh Thakrar	**Robert Shirriff**	**Carol Perry**	**Wendell Wigle**
			Wendell Wigle	**Susan Wolburgh Jenah**

OSC

* As Secretary to the Commission, John Stevenson is an *ex-officio* member.

Name	Date Appointed	Current Term Expires	Name	Date Appointed	Current Term Expires
Paul K. Bates	06/03	06/09	Paul M. Moore	02/01	02/07
Robert W. Davis	11/99	11/06	Carol S. Perry	02/05	02/08
Harold P. Hands	04/02	04/08	Robert L. Shirriff	03/02	03/08
David L. Knight	08/04	08/07	Suresh G. Thakrar	06/03	06/09
Patrick J. LeSage	12/05	12/08	Wendell S. Wigle	05/03	05/09
M. Theresa McLeod**	10/99	05/06	W. David Wilson	11/05	11/10
			Susan Wolburgh Jenah	02/04	02/09

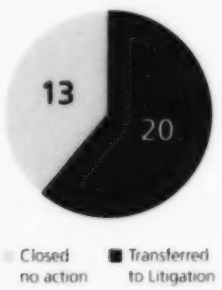
** Theresa McLeod retired from the Commission in May 2006.

Goal 4 PROVIDE FAIR, VIGOROUS AND TIMELY ENFORCEMENT

The deterrence of abuses will encourage the development of a market that fosters equal opportunity and economic fairness and which cultivates the trust and confidence necessary to attract domestic and foreign capital flows.

81% of Case Assessment and Surveillance files were transferred to Investigations or Litigation within four months.

33 Investigations – Closed/Transferred in 2005/06



75% of all Investigation files were completed within nine months of transfer from Case Assessment and Surveillance.

Fair and efficient capital markets require securities regulators to prevent, detect and deter market abuses, such as illegal insider trading. Market abuses are an attack on the very trust that the OSC is entrusted with protecting. Therefore, our goal is to ensure that our enforcement presence is – and is seen to be – as fair, vigorous and timely as possible.

The OSC will treat all market participants fairly and with integrity as it administers and enforces securities law in Ontario. We recognize that maintaining a vigorous enforcement presence involves strengthening our partnerships with other securities regulators – across Canada and abroad – and law enforcement authorities such as the RCMP's Integrated Market Enforcement Team (IMET) in Toronto. Through enhanced cooperation, we will become more effective in the enforcement area, both in Ontario and with our national and international regulatory partners.

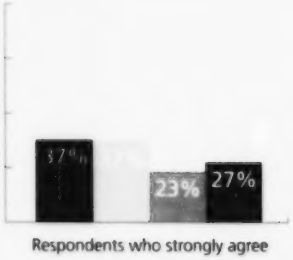
Reduced Timelines

On an ongoing basis, the OSC Enforcement Branch endeavours to reduce the time spent from detection of an alleged abuse to the commencement of a regulatory proceeding. In the 2005-06 fiscal year, we achieved the objective of reducing the surveillance and case assessment timeline: 81% of cases were transferred to Investigations or Litigation within four months, down from the previous timeline of within six months. Furthermore, the implementation of new procedures in cooperation with Market Regulation Services Inc. (RS) helped decrease the average time between the detection of suspicious trading and the transfer to investigation/litigation from six to three months.

Last year, we set an objective to complete 75% of investigation files within nine months from their transfer from the Case Assessment and Surveillance units. To reach this new objective, we narrowed the focus of investigations and improved the procedures for obtaining information from third parties. The result was that at the end of the 2005-06 fiscal year, 75% of investigation files were less than nine months old.

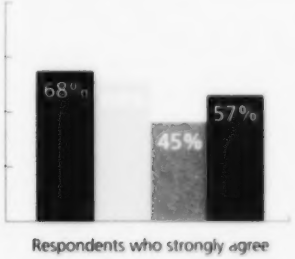
Enforcement

The OSC provides timely enforcement.



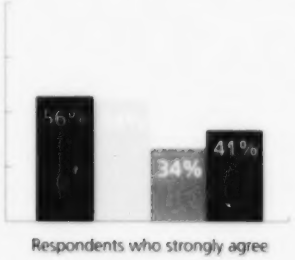
Respondents who strongly agree

The OSC is a strong enforcer of the Ontario *Securities Act*.

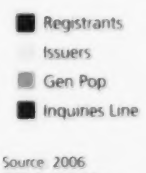


Respondents who strongly agree

OSC sanctions are a deterrence against violating the *Securities Act*.



Respondents who strongly agree



Source: 2006 OSC Stakeholder Satisfaction Survey

Enforcement Continuum

The work done in other OSC Branches beyond the Enforcement Branch complements, and is an important source of input and support to, the Enforcement Branch. For example, compliance staff in Capital Markets conduct field reviews of advisers, fund managers and limited market dealers to detect significant deficiencies such as the use of inaccurate marketing materials (see Adviser Reviews chart, this page).

The Corporate Finance Branch reviews the continuous disclosure files of Ontario-based reporting issuers once every four years on average (over 300 reviews per year). We often request changes to the disclosure documents filed by issuers, or to other aspects of their practices. The top chart on this page presents the overall results of all our reviews during the year, including prospectus filings.

Public Awareness

This "enforcement continuum" also extends into contacts with the investing public in our efforts to increase public awareness of fraud prevention and detection. Staff in the Inquiries & Contact Centre and Investor Communications section of our Communications Branch work proactively to help educate retail investors about avoiding potential frauds. There are also times when the public provides information that is helpful to our Enforcement Branch. In May 2005, we launched the "TIPS" page on our website to make it easier for the public to submit leads on potential violations of Ontario securities law. In 2005-06, 96 leads were submitted to the OSC through TIPS.

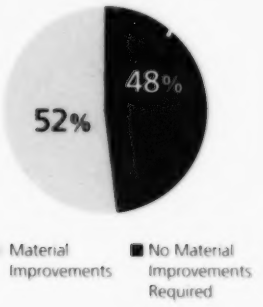
In general, the OSC is seen as providing strong enforcement of the rules and regulations governing the capital markets. The 2006 OSC Stakeholder Satisfaction Survey reveals that 68% of registrants, 64% of reporting issuers and 57% of Inquiries Line Users strongly agreed that the OSC is a "strong enforcer." These results are consistent with the findings of the 2004 survey. The level of strong agreement within the general population increased from 28% in 2004 to 45% this year, whereas the percentage of respondents who strongly disagreed declined from 7% in 2004 to 4% in 2006, reflecting an improving public profile for the OSC.

We continually seek to improve the effectiveness and transparency of our enforcement work, while cooperating with other regulators, both within and outside Canada, and law enforcement authorities. A vigorous enforcement presence is necessary to prevent, detect and deter market abuses. The deterrence of abuses will encourage the development of a market that fosters equal opportunity and economic fairness and which cultivates the trust and confidence necessary to attract domestic and foreign capital flows.

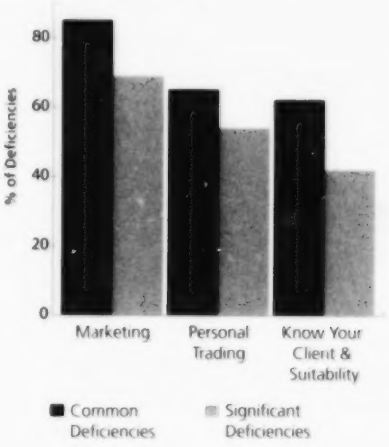
For more information about OSC activities and initiatives related to providing protection to investors, read the sections on Goal 2 (page eight), Goal 3 (page 10) and Goal 4 (page 12).

To read more about our enforcement priorities for the 2006-07 fiscal year, read the OSC Statement of Priorities for Fiscal 2006-2007 in the 'Governance & Accountability' section of www.osc.gov.on.ca

Results of Prospectus and Continuous Disclosure Reviews in 2005/06



2004/2006 Adviser Reviews



Looking Ahead...

We will take all necessary steps to ensure that our enforcement efforts are – and are seen to be – as robust and effective as possible. During 2006/07 we will conduct a thorough review focused on enhancing our enforcement capabilities, strategies and initiatives to ensure that:

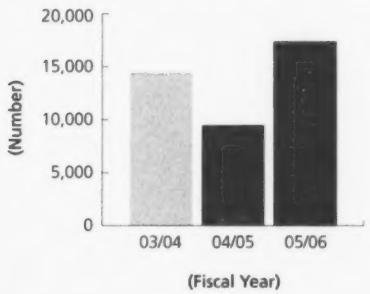
- We are strategically selecting cases for investigation and prosecution; and
- An effective and appropriate process exists for identifying and moving to enforcement cases from all the OSC's compliance functions.

Goal 2 TAKE ACTIONS TO BETTER UNDERSTAND AND ADDRESS THE NEEDS OF THE RETAIL INVESTOR

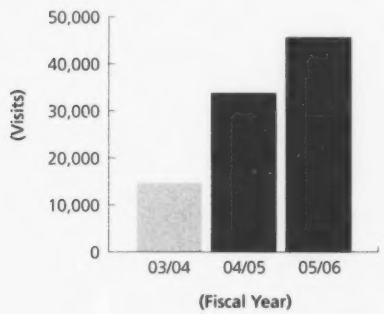
Together with self regulatory organizations, we increased efforts to make investors aware of the options for dealing with their complaints and concerns, including redress mechanisms.

As more Canadians rely on the capital markets to generate and preserve their personal wealth, the more they count on those markets to be fair and efficient. The growth of the investor community and resulting changes in attitudes towards investment risk illustrate the increasing need for investor education. The OSC's challenge is to continue to improve our understanding of the needs of investors and seek opportunities for consultation. By doing so, we will help foster confidence in the integrity of the capital markets.

Total Direct Audience: Community Outreach Programs



Average Visits per Month to www.investorED.ca



Public Outreach

The OSC conducts public awareness campaigns and community outreach programs to promote investor education, and prepares investor alerts on specific issues of concern to investors.

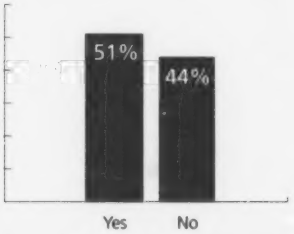
Research by the Investor Education Fund, a non-profit organization funded by OSC enforcement settlements, indicates that people seek financial information at key "triggering moments", such as when they buy a home. By targeting specific consumers through trade shows and proactive media campaigns, we are capturing a more engaged audience, as evidenced by website traffic and internal research (see Direct Audience and OSC Website Visits charts). Our outreach strategy includes participation in large events, such as "Investor Education Month" in October 2005, and targeted campaigns. This enables us to speak to more people about investment education and fraud prevention.

Retail investors also have a direct line into the OSC through our Inquiries & Contact Centre, which responds to e-mail and telephone inquiries and handles initial reviews of written complaints. The Contact Centre handled 36,656 inquiries from stakeholders, including retail investors, in 2005-06, down slightly from the previous year, and received 1,206 written complaints against market participants, compared to 696 the year before. The increase in complaints was partly a result of introducing, in May 2005, an online TIPS form about potential violations of Ontario securities law. In total, we received 96 electronic tips in 2005-06 (see page nine).

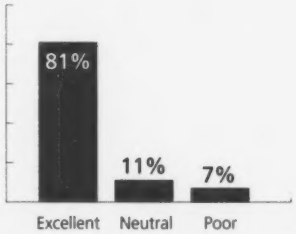
The perception of the OSC's service among the Inquiries Line Users polled in the 2006 OSC Stakeholder Satisfaction Survey was generally unchanged: 15% said the OSC's service improved in the previous 12 months while 55% said service stayed the same (see charts below).

Service to Inquiries Line Users in 2005/06

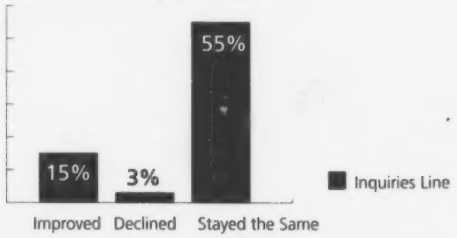
Was the issue you contacted the OSC about resolved?



How satisfied were you with the resolution?



Overall has the service offered by the OSC improved, declined or stayed about the same in past 12 months?



Source: 2006 OSC Stakeholder Satisfaction Survey

Responding to the Town Hall

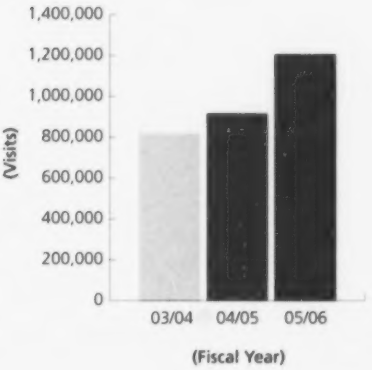
At the OSC Investor Town Hall on May 31, 2005, investors voiced concerns about the complexity of the regulatory framework in Canada and the complaint process and expressed a desire for timely restitution. The major issues were identified and discussed in the OSC's report on the Town Hall and we are in the process of following through on the commitments made at the event.

Based on feedback from Town Hall participants and focus groups, the Contact Centre is enhancing its service to help investors improve their understanding and awareness of the complaint process and the role of regulators and SROs. Inquiries Officers also try to educate investors to help them avoid falling victim to investment fraud and will, where appropriate, direct callers to other organizations and/or resources for assistance.

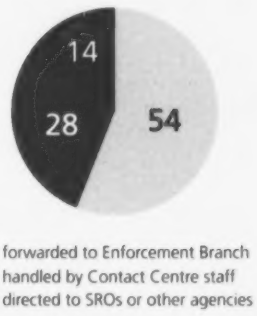
In response to comments about the complaint-handling process, we have worked with the Investment Dealers Association, Mutual Fund Dealers Association and Ombudsman for Banking Services and Investments to develop and implement recommendations to make the complaint-handling process for the securities industry more comprehensible and accessible. Together with the self regulatory organizations, we are more focused on making investors aware of the options for dealing with their complaints and concerns, including available redress mechanisms. Efforts are continuing on targeted improvements to the complaint-handling process to achieve a more effective system.

To enhance consultations, the OSC established the Investor Advisory Committee (IAC) in November 2005. Its objective is to help address issues affecting investors and ensure that their views are accessible to the Commission. IAC members were selected on the basis of their knowledge of investment and securities issues and experience representing retail investors.

Annual OSC Website Visits



Disposition of 96 online TIPS in 2005/06:



Rule Changes to Protect Investors

Progress was also made in the development of rules to enhance investor protection. For example, we are working with the CSA on a proposed rule that would impose a minimum, consistent standard of governance for all publicly offered investment funds. Proposed National Instrument 81-107 *Independent Review Committee for Investment Funds* would require every investment fund that is a reporting issuer to have an independent review committee to oversee potential conflicts of interest faced by the fund manager in the operation of the fund. It is expected that a final rule will be published in mid-2006.

In addition, the OSC is working with the CSA on an initiative to provide concise, understandable disclosure to investors in mutual funds at the point of sale. This is part of a project to create a harmonized point-of-sale disclosure regime for mutual funds and segregated funds.

While we made progress in addressing the needs of retail investors, there is more work to do. We recognize the importance of consultation and the necessity to act upon what we hear from stakeholders. These are crucial aspects of our commitment to provide protection to investors and foster capital markets with integrity.

For more information about OSC activities and initiatives related to providing protection to investors, read the sections on Goal 1 (page six), Goal 3 (page 10) and Goal 4 (page 12).

Looking Ahead...

In the 2006-07 fiscal year, we plan to improve our understanding of the needs and concerns of investors through the new Investor Advisory Committee (IAC). A year-end survey of the Chair and members of the IAC will:

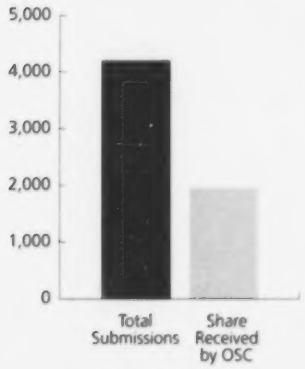
- Determine whether our support and assistance to the IAC was appropriate and effective; and
- Collect the views of the Chair and IAC members on opportunities to improve the IAC's operations and recommendations for the future.

Goal 3

PROMOTE A HARMONIZED, SIMPLIFIED AND STRENGTHENED SECURITIES REGULATORY FRAMEWORK FOR CANADA

The CSA work plan for highly harmonized securities laws focuses on key areas that will provide the greatest benefit to market participants.

Submissions to National Registration System
(April 4, 2005 to March 31, 2006)



A Commitment to Cost-Benefit Analysis

Examples of cost-benefit analyses completed in 2005-06 for major initiatives to clearly identify costs and benefits for stakeholders.

- Prospectus and Registration Exemptions
- Registration Reform Project Business Trigger

The OSC supports the Government of Ontario's goal to move towards a common regulator, a common set of securities laws and a single fee structure for Canada. To achieve this, the OSC promotes the development of a harmonized, simplified and strengthened securities regulatory framework.

The OSC, together with the rest of the Canadian Securities Administrators (CSA), is working to develop and strengthen elements of the mutual reliance system to create more efficient one-stop shopping for issuers and registrants, to further harmonize securities laws and to streamline administrative practices. The CSA work plan for highly harmonized securities laws focuses on key areas that will provide the greatest benefit to market participants. For this reason, the CSA are targeting completion of national rules for registration, prospectus requirements, take-over and issuer bid obligations and insider reporting requirements.

The CSA have also developed a package of legislative amendments for consideration by provincial and territorial governments to facilitate harmonization and streamlining of securities laws across Canada, remove obsolete or unnecessary requirements in securities statutes and enable regulators to further harmonize regulatory requirements in rules.

Internal Controls

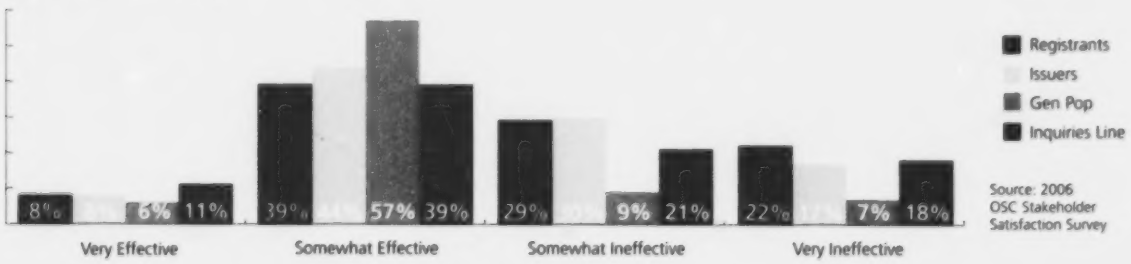
The CSA's cooperative approach contributed to a number of key policy developments in 2005-06. Securities regulators are working toward a Canadian approach to improving the quality, reliability and transparency of internal controls over financial reporting. In March 2006, the CSA announced proposals (CSA Notice 52-313) that would require all publicly-traded companies to report on the effectiveness of their internal controls. The requirements would apply in all Canadian jurisdictions to all companies listed on the TSX and TSX Venture exchanges. The CSA intend to seek public comment on the proposal.

Investment Funds

On June 1, 2005, the CSA continuous disclosure rule for investment funds came into force. National Instrument 81-106 *Investment Fund Continuous Disclosure*

Regulatory Cooperation

There are currently 13 provincial and territorial securities commissions in Canada that regulate capital markets in their respective jurisdictions. How effective do you think these bodies are in working together to oversee securities regulations in the country?



Source: 2006 OSC Stakeholder Satisfaction Survey

harmonizes and centralizes continuous disclosure obligations for all investment funds. It also introduces new types of disclosure such as management reports of fund performance and proxy voting records, policies and procedures.

Prospectus and Registration Reform

The National Registration System (NRS) was implemented on April 4, 2005, to improve the current system through a mutual reliance process. This process will reduce unnecessary duplication in the analysis of applications made in multiple jurisdictions or in subsequent jurisdictions. One benefit is that participants only deal with their principal regulator rather than multiple regulators. The impact of this benefit can be measured through submissions made under NRS through the National Registration Database.

From April 4, 2005, to March 31, 2006, NRS received 4,187 submissions made for sponsored individuals. These submissions resulted in 12,802 applications before regulators. In other words, on average, most NRS submissions went to three jurisdictions. As a result, registrants had two-thirds fewer contacts with securities regulators across the country. The OSC received 1,954 submissions and was the principal regulator in 1,470, or 75% of filings (see chart, page 10).

The OSC also worked with the CSA to make progress in streamlining the short form prospectus system. National Instrument 44-101 *Short Form Prospectus Distributions* broadens access to the short form prospectus system to allow more issuers to benefit from the streamlined regime. The new rule, which came into effect on December 30, 2005, more fully integrates the disclosure systems for the primary and secondary markets. The changes are designed to allow issuers to efficiently access the capital markets by depending increasingly on their existing continuous disclosure record.

Until recently, prospectus and registration exemptions in Ontario were located in various local and national instruments as well as in the *Securities Act* and Regulation. National Instrument 45-106 *Prospectus and Registration Exemptions*, which came into force on September 14, 2005, rolled in over 50 exemptions from various sources, thereby replacing five local and national exemption instruments, 47 exemptions in the Act and five exemptions in the Regulation. The resulting regime is part of a substantially more harmonized framework in Canada.

These are just some highlights of a busy year. We will continue to work with our CSA colleagues to further harmonize, streamline and modernize the system of securities regulation in Canada.

For more about the OSC's regulatory priorities for the 2006-07 fiscal year, read the OSC Statement of Priorities for Fiscal 2006-2007 in the 'Governance & Accountability' section of www.osc.gov.on.ca.

40 CSA regulatory policy projects

14 CSA Standing Committees

OSC staff actively participate in some 40 CSA regulatory policy projects and 14 CSA Standing Committees.

Looking Ahead...

- We plan to further harmonize the registration regime as part of the CSA Registration Reform Project. During 2006/07 we will prepare and propose draft legislation and rules that would reduce regulatory costs for registrants by streamlining and harmonizing requirements.
- A CSA committee has started preparing proposed amendments to the executive compensation disclosure requirements contained in National Instrument 51-102 *Continuous Disclosure Requirements*, and we intend to publish these for comment in 2006/07.
- The OSC will work with the CSA to identify areas of concern arising from a review of hedge funds and similar products and propose regulatory responses to those concerns.

Goal 4

WORK TO ACHIEVE APPROPRIATE REGULATORY INTEGRATION OF NORTH AMERICAN AND GLOBAL CAPITAL MARKETS

By cooperating with other regulators on enforcement activities, we help identify and close gaps in regulation that may be used to support illegal market abuses, which could pose a risk to Ontario investors.

Ontario's capital markets operate within an expanding global securities market that is undergoing rapid technological, structural and competitive changes. Market participants in Ontario participate in this global market. Corporations based in the province search for sources of capital around the world and individuals invest in securities offered on international markets.

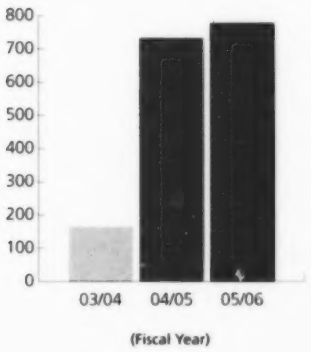
Increasingly, investors, public corporations and market intermediaries expect regulators worldwide to work together to foster the integrity of the global securities market and provide protection against misconduct. Indeed, weaknesses in foreign regulatory regimes can pose risks to Ontario's capital markets.

The OSC actively participates in the development of international regulatory standards, which benefit market participants across Canada. Implementing global standards makes good sense because the process supports convergence in regulation, where appropriate, and thereby reduces regulatory burdens and the risk of regulatory arbitrage. By participating in and contributing to the policy-making activities of organizations such as the International Organization of Securities Commissions (IOSCO), the OSC promotes harmonization and influences the development and implementation of international standards. The OSC also lends assistance to foreign regulators and cooperates with them, as appropriate, on enforcement matters of mutual concern.

"It is now almost impossible to develop domestic standards in isolation, as foreign financial institutions spread across markets introducing new products, new technology and advance systems of corporate governance," IOSCO Secretary General Philippe Richard said in a speech in Dubai in March 2006.

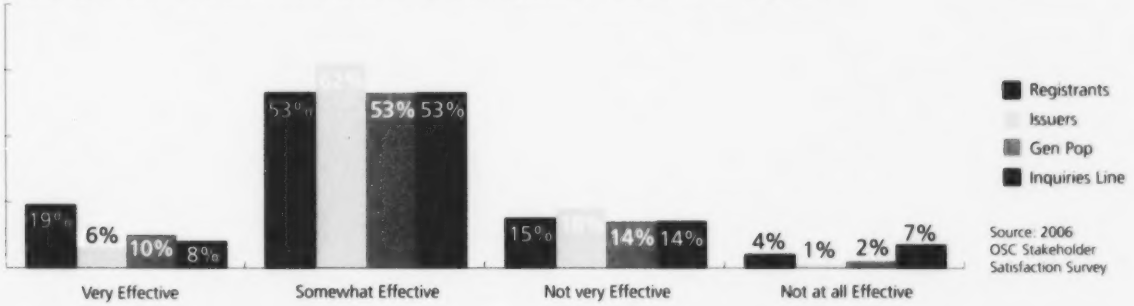
The OSC is an ordinary (voting) member of IOSCO, whose members regulate more than 90% of the world's securities markets, and is one of 30 signatories to IOSCO's Multilateral Memorandum of Understanding (MMOU). The MMOU aims to facilitate and reinforce international cooperation among regulators in enforcement matters. In addition, we actively participate in the Council of Securities Regulators of the Americas and the North American Securities Administrators Association.

Enforcement Branch
Assistance Requests from Foreign Regulators



International Cooperation

In your opinion, how effective is the cooperation between regulators in cross-border investigations?



Source: 2006 OSC Stakeholder Satisfaction Survey

Through IOSCO, we have made a commitment to improve the quality of information shared on enforcement matters internationally. We offer assistance to foreign regulators to ensure that borders do not become a shield for those who carry out unlawful activities in multiple jurisdictions. The majority of requests for assistance come from regulatory authorities in the United States, including the Securities and Exchange Commission (SEC) (see chart, page 12). Securities regulators in Hong Kong, Panama and Malaysia also made several requests for assistance in 2005/06. In addition, we assist other jurisdictions to overcome barriers that have made it difficult for them to provide substantive information necessary to effectively pursue investigations of market abuses.

The OSC is one of **30** signatories to IOSCO's Multilateral Memorandum of Understanding.

Benefits of Cooperation

By cooperating with other regulators on enforcement activities, we help identify and close gaps in regulation that may be used to support illegal market abuses, which could pose a risk to Ontario investors. This is an international and integrated approach to providing protection to investors in Ontario.

Senior Commission representatives participate on several key policy-making committees of IOSCO. For example, the OSC is a member of IOSCO's Executive Committee and Technical Committee. Commission staff participate in the five Technical Committee Standing Committees, whose initiatives have included the publication of reports regarding: the evolution of exchanges, the compliance function at market intermediaries and international disclosure principles for cross-border offerings and listings of debt securities by foreign issuers. These reports have been useful on a domestic level in policy initiatives and reviews of market participant policies and practices.

9: Number of investigations of mutual enforcement interest involving the OSC and other regulators in 2005-06.

The OSC has participated in a number of significant policy initiatives that have been implemented both domestically and internationally. Two key examples include IOSCO's Code of Conduct Fundamentals for Credit Rating Agencies (IOSCO Code) and Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence (Auditor Principles). The OSC played a key role in the task forces that created, implemented and continue to monitor these two initiatives. The IOSCO Code was adopted by major credit rating agencies worldwide, including one agency headquartered in Toronto. In Ontario, many of the principles described in the Auditor Principles were adopted in domestic policy initiatives relating to audit committees, auditor independence, and auditor oversight and international standard-setting.

The technological and structural forces behind globalization demand that securities regulators cooperate to achieve the appropriate regulatory integration of global capital markets. By participating in the development and adoption of international regulatory standards, the OSC encourages a culture of cooperation among regulators as they work together to foster fair, efficient and harmonized markets around the world.

Looking Ahead...

- In the coming year, we will participate in IOSCO initiatives relating to the development of international standards and guidance on non-audit services offered by audit firms, hedge funds, special purpose entities and transparency of bond markets.
- We will support IOSCO's plans to develop an approach to regulate an intermediary's obligation to properly manage information during an offering of securities.

For more information about the OSC's international activities, see the International Affairs section of www.osc.gov.on.ca.

SUPPORT AND PROMOTE A MORE FLEXIBLE, EFFICIENT AND ACCOUNTABLE ORGANIZATION

Given our mandate and funding structure, stakeholders expect us to operate at the highest levels of efficiency and service. We hold ourselves to the same standard.

25.5%

The projected reduction in total participation and activity fee revenues in the new OSC fee schedules.

Participation fees for smaller registrants are projected to decrease by

20-50%

under the new OSC fee rules.

As the OSC carries out its mandate, the organization strives to deliver regulatory services in an efficient, businesslike manner. Commissioners and OSC employees are expected to maintain the highest standards of conduct and to deal fairly and openly with all stakeholders. Such a commitment is essential for supporting and promoting a more flexible and accountable organization within rapidly changing capital markets.

Accountability

The OSC's role and responsibilities are set out in the *Securities Act*. The Act outlines a number of principles to which the Commission must have regard as it pursues the purposes of the legislation, such as the requirement for timely, open and efficient administration and enforcement of the Act.

The Act requires the Commission to enter into a memorandum of understanding (MOU) every five years with the Minister responsible for securities regulation. The MOU sets out, among other things, the respective roles and responsibilities of the Minister and the OSC Chair, the accountability relationship between the Commission and the Minister and various reporting requirements.

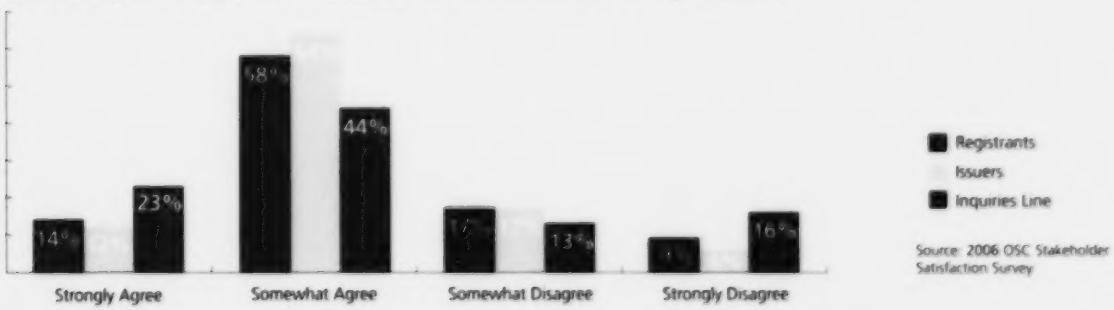
Under the current MOU, dated May 26, 2003, the Commission must deliver an annual business plan and annual report to the Minister. The annual report shall include audited financial statements, a description of performance achieved against the objectives and targets set out in the business plan, and a description of the Commission's corporate governance structure. On December 15, 2005, the Act was amended to empower a standing or select committee of the Assembly to review the OSC annual report, after it is tabled, and to report its opinions and recommendations to the Assembly.

Efficiency

As an independent regulatory agency, it is incumbent upon us to use the fees paid by market participants efficiently. The OSC is funded by fees paid by capital market participants and under the current fee model we adjust fees every three years to ensure they fairly represent operational costs. Any surpluses in one three-year period are taken into account in setting fees for the following three-year cycle.

Accountability

Would you agree or disagree that the OSC is flexible and accountable in fulfilling its mandate?



Source: 2006 OSC Stakeholder Satisfaction Survey

In March 2006, the Minister approved new fee rules that are projected to reduce total activity and participation fee revenues by 25.5%. As a result, most market participants will see a decrease, though some will experience increases that better reflect the cost of services. We were able to reduce fees by applying our forecast accumulated surplus for the current three-year period. The fee rules came into force on April 1, 2006. The overall reductions are in addition to the nearly $15 million in surplus fees that was rebated to market participants in 2005.

In developing the revised fees we were able to address concerns about fee levels, especially for smaller market participants. Participation fees for smaller registrants with revenues below $3 million (over 80% of registrants) will decrease by 20% to 50%.

Given our mandate and funding structure, stakeholders expect us to operate at the highest levels of efficiency and service. We hold ourselves to the same standard. As an organization, in addition to the measures set out in this report, we have key measures that reflect external customer service targets for all program areas. Tracked quarterly, these measures are used as a barometer of our overall performance in serving our constituents. In 2005-06, we met or exceeded 70% of those standards. Efforts are underway to implement changes in areas where we did not meet our service standards. For example, we want to shorten the average response time to e-mail inquiries to our Contact Centre.

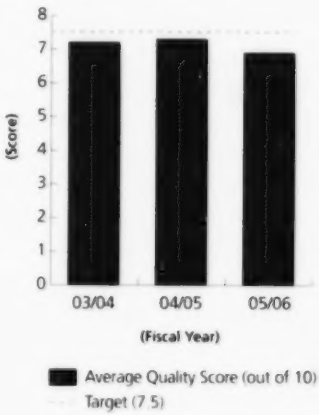
In addition, we monitor the percentage of OSC projects on track and the milestones achieved for high priority rule-making initiatives. This reflects our project management effectiveness and ability to deliver against deadlines. Our target was to have more than 90% of projects on track – the 2005-06 result was 85%.

90% : target

85% : actual

Percentage of priority rule-making initiatives on track.

OSC Contact Centre Telephone Inquiries Quality Score



Flexibility

Since 2000, we have commissioned biennial Stakeholder Satisfaction Surveys to measure our effectiveness in fulfilling our mandate and providing services to stakeholders. The 2006 survey says 72% of registrants, 76% of reporting issuers and 67% of Inquiries Line Users agreed the OSC was "flexible and accountable in fulfilling its mandate" (see charts, page 14). More broadly, 53% of registrants, 56% of reporting issuers, 49% of Inquiries Line Users and 40% of the general public strongly agreed that the OSC is a "fair, balanced and effective regulator." (This question was not asked in previous surveys.)

Our goal is to ensure that the OSC conducts itself as an efficient, accountable and flexible organization. Moreover, we must continuously monitor and improve the effectiveness of our operations and be innovative and cost-efficient in carrying out our mandate.

Read the OSC Statement of Priorities for Fiscal 2006-2007 and a report on our progress against the priorities for 2005/06 located on the accountability page of the 'Governance & Accountability' section of www.osc.gov.on.ca.

Looking Ahead...

- We will undertake and report on surveys to obtain feedback on our performance, identifying opportunities for improvement in areas where stakeholders do not express positive customer service ratings of the OSC.
- As part of a multi-year knowledge management project, we will complete an organization-wide information audit in the 2006-07 fiscal year to assess how the OSC creates, stores and accesses information in its operations.

STRUCTURE

OSC Chair David Wilson and Executive Director and Chief Administrative Officer Peggy Dowdall-Logie

The OSC endeavours to conduct itself as an efficient, accountable and flexible regulator that treats all of its stakeholders with respect and fairness.

The structure of the OSC is comprised of two distinct areas: the Commission and the staff. One of the functions of the Commission is to serve as a Board of Directors, overseeing the management of the organization's financial and other affairs (see Commission section, page four). OSC staff are responsible for performing duties to enable the OSC to effectively and efficiently carry out its dual mandate to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity.

The OSC is organized into Branches and Offices, including four operational Branches: Capital Markets, Corporate Finance, Enforcement and Investment Funds. The remaining Branches and Offices are the Office of the Chief Accountant, General Counsel's Office, Office of the Chief Economist, Office of the Secretary, Communications & Public Affairs, Corporate Services, Policy and Project Office and Human Resources.

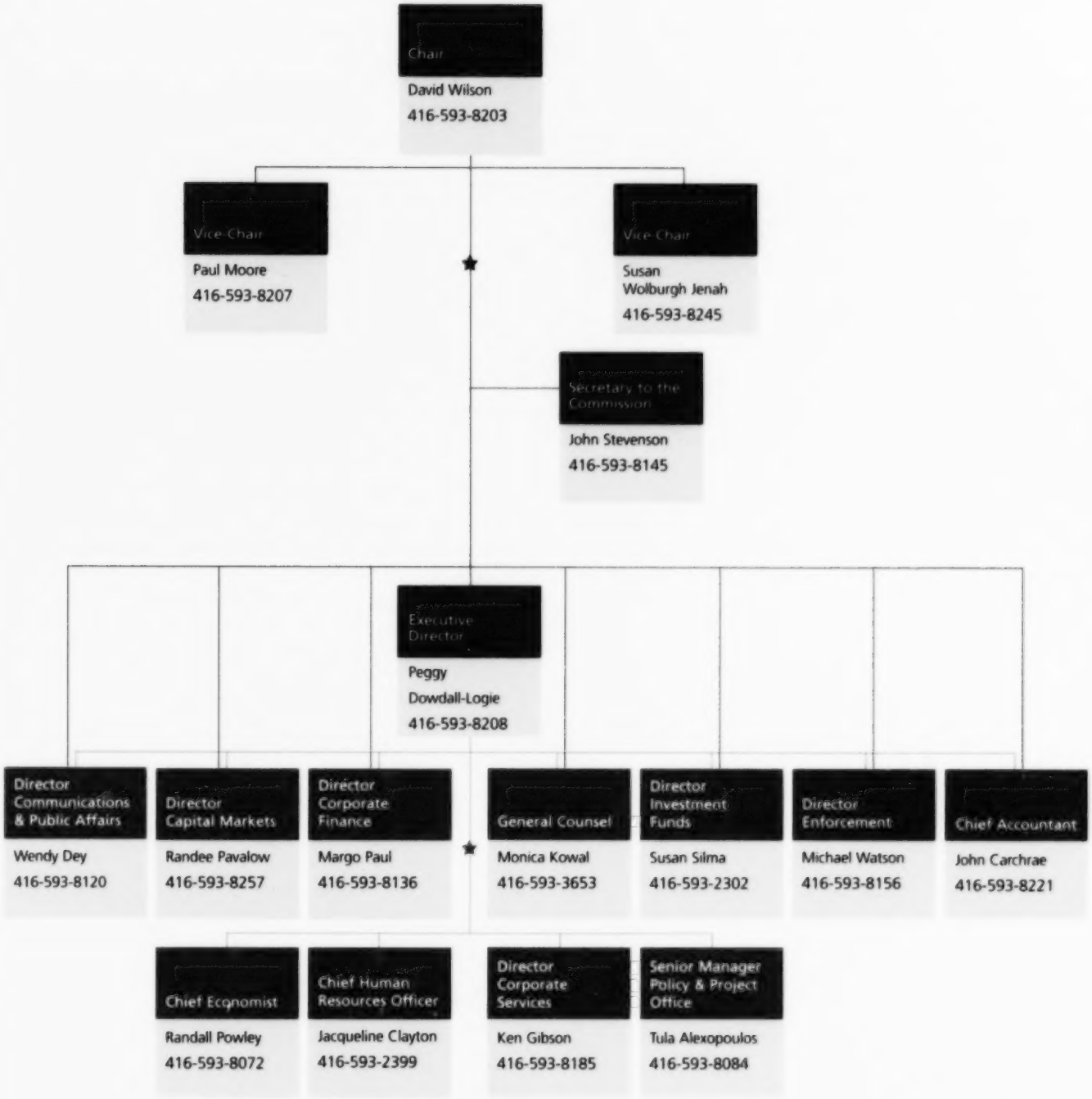
Under a new "matrix" reporting structure, introduced in 2006, certain Directors report to both the Chair and the Executive Director (see organizational chart on page 17). The organizational chart indicates that the responsibilities and accountabilities with respect to the reporting line to the Chair include policy decisions, policy development, enforcement case assessment and activation and strategic direction. The responsibilities and accountabilities with respect to the reporting line to the Executive Director include policy implementation, enforcement case execution, project execution and tactical direction.

According to the *Securities Act*, the OSC Chair serves as both the Chief Executive Officer of the organization and Chair of the Commission. The Executive Director performs the role of Chief Administrative Officer of the Commission, as defined in the Act, reporting to the Chair. Together with the two Vice-Chairs, the Chair and Executive Director also sit on the OSC Executive Committee.

On June 26, 2006, Peggy Dowdall-Logie joined the OSC as Executive Director and Chief Administrative Officer. Ms. Dowdall-Logie possesses an LL.B. and has 20 years experience in the financial services, regulatory and professional consulting sectors, with particular expertise in operations management. Her management experience includes strategic planning, regulatory compliance, operations, information technology and risk management.

The OSC endeavours to conduct itself as an efficient, accountable and flexible regulator that treats all of its stakeholders with respect and fairness. As an organization, we will continue to strive to improve our service to investors, reporting issuers, registrants and other stakeholders.

Matrix Reporting Organization 2006



★ Responsibilities and accountabilities with respect to the reporting line to the Chair include policy decisions, policy development, enforcement case assessment and activation, and strategic direction.

★ Responsibilities and accountabilities with respect to the reporting line to the Executive Director include policy implementation, enforcement case execution, project execution, resources (human, technology, budget, etc.), and tactical direction.

For a more detailed organizational chart, see the 'Governance & Accountability' page of www.osc.gov.on.ca

Randee Pavalow
Director,
Capital Markets

Capital Markets

The Capital Markets Branch administers the regulatory framework for intermediaries, markets and self-regulatory organizations. Its Registrant Regulation team administers requirements for trading or advising in Ontario. Compliance staff review fund managers, advisers and other market participants to ensure compliance with securities laws. Market Regulation staff oversee exchanges, other markets, clearing agencies and SROs.

Margo Paul
Director,
Corporate Finance

Corporate Finance

The Corporate Finance Branch administers the regulation of public companies and leads issuer-related policy initiatives. Staff oversee public offerings of securities through a review of prospectuses, and the ongoing dissemination of information by reporting issuers through a review of continuous disclosure documents. Staff also monitor compliance with securities laws in takeover bids and mergers and acquisitions.

Susan Silma
Director,
Investment Funds

Investment Funds

The Investment Funds Branch administers the regulatory framework for investment funds through prospectus reviews and exemption applications. The Branch oversees the offering of conventional mutual funds, exchange-traded funds, labour sponsored funds, structured products, scholarship plans and other investment funds. Staff also develop new rules and policies to adapt to the changing environment in the investment fund industry.

Michael Watson
Director,
Enforcement

Enforcement

The Enforcement Branch endeavours to ensure that Ontario securities laws are upheld through fair and effective enforcement. Surveillance and Case Assessment Teams generate and evaluate information and refer matters involving potential serious breaches of Ontario securities laws to Investigations. Litigation will analyze recommendations and, if appropriate, initiate and conduct proceedings.

Wendy Dey
Director,
Communications &
Public Affairs

Communications & Public Affairs

The Communications Branch provides strategic advice and counsel to the Chair's Office and Commission branches to ensure that all OSC stakeholders are kept well informed of Commission activities and policies. Communications responsibilities also include management of media relations and issues, executive speeches, investor communications, public inquiries and complaints, publications and the OSC website.

Monica Kowal
General Counsel

General Counsel's Office

The General Counsel's Office is an in-house legal and policy resource, providing senior legal advice and assistance on operational, transactional and regulatory issues to the Executive Committee, Commission and staff. The GCO also leads policy projects – including legislative reform – and supports the branches in the policy development process.

Office of the Chief Accountant

The Chief Accountant advises the Chair, the Commission, staff and market participants on financial reporting, auditing and related policy issues. The Chief Accountant also oversees the Commission's relationships with the accounting profession, national and international accounting and auditing standards-setting bodies and the Canadian Public Accountability Board.

John Carchrae
Chief Accountant

Office of the Chief Economist

The Office of the Chief Economist works with OSC staff and external stakeholders to prepare cost-benefit analyses of significant policy projects, designed to help the Commission select the most appropriate course of action. It also provides analytical support to the Commission and staff and conducts fundamental research on capital markets.

Randall Pozdena
Chief Economist

Corporate Services

The Corporate Services Branch builds and maintains the core internal systems and infrastructure necessary for OSC staff to work effectively and efficiently. The Branch's areas of responsibility include information technology, finance and accounting, business planning and reporting, knowledge management, records, the Commission library and office and administrative services.

Ken Gibson
Director,
Corporate Services

Office of the Secretary

Reporting directly to the Chair, the Office of the Secretary to the Commission is responsible for ensuring the fair, impartial and efficient operation of the Commission's administrative proceedings, reviews and appeals, providing corporate secretarial support to the Commission's Board, and administering the Commission's policy agenda and request for comments procedures.

John Stevenson
Secretary

Policy and Project Office

The Policy and Project Office manages the Commission's relationship with government and other CSA jurisdictions, provides strategic and policy advice to advance OSC priorities, provides project management expertise in the policy development process, reviews all rules and policies to ensure appropriate authority and consistency and provides drafting support for rules and policies.

Tula Alexopoulos
Senior Manager, Policy
and Project Office

Human Resources

The Human Resources team provides leadership, guidance and service in the areas of recruitment and selection, employee relations, job evaluation, compensation, payroll, benefits and pension administration and disability management. The HR team works strategically with the Senior Management Team in identifying and responding to the OSC's changing needs.

Jacqueline Clayton
Chief Human
Resources Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated May 30, 2006

The financial statements present the results of the Ontario Securities Commission (OSC) for the year ended March 31, 2006 with 2005 comparatives and accompanying notes. Unless otherwise specified, references to years, for example 2005, refer to the fiscal years of the OSC ended March 31. The following comments analyze the factors which affected the OSC's operations during 2006, as well as the factors that reasonably may be expected to affect future operations and financial results.

This document should be read in conjunction with the financial statements. Certain statements included in this annual report are forward looking and are subject to important risks and uncertainties. The results or events forecast in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described in the risks and uncertainties section. Readers should note that some assumptions, although reasonable at the time of publication, are not guarantees of future performance.

Overview

The Ontario Securities Commission is a corporation without share capital. The OSC functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the OSC is exempt from income taxes. The OSC's operations are funded through fees paid by securities market participants. Employee compensation and occupancy costs account for 81.1% (2005 – 78.4%) of OSC expenses.

The *Securities Act* requires the OSC to complete a Memorandum of Understanding with the responsible Minister to outline the ongoing roles, responsibilities and accountability relationships between the two parties. The OSC and the Minister of Finance signed a Memorandum of Understanding in May 2004. This Memorandum of Understanding was affirmed on November 3, 2005 by the new Minister responsible for the OSC.

The OSC maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate and that its assets are adequately protected. The Board of Directors, in conjunction with the Audit and Finance Committee, has an oversight role to ensure the integrity of the reported information.

OSC Fees

The OSC fee schedule is designed to generate fees that reflect the OSC's cost of providing services to market participants. The OSC sets fee levels every three years. The new fee schedule became effective April 1, 2006. Fee levels are adjusted to offset accumulated deficits or surpluses. The fee schedule requires the payment of "activity fees" and "participation fees".

Activity fees are designed to represent the direct cost of OSC staff resources used in undertaking certain activities requested of staff by market participants. Activity fees are charged for a limited number of activities only and are flat rates based on the average cost to the OSC of providing the service.

Participation fee levels are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Participation fee levels are set using a tiered structure. As the market size of a market participant increases, they move through various tiers which have increasingly higher fees. The breadth of the tiers is set sufficiently wide to minimize movement through tiers due to market fluctuations. This tiered design reduces volatility in OSC revenues due to market changes.

The *Securities Act* states that, when ordered to do so by the responsible Minister, the OSC shall pay into the Consolidated Revenue Fund such of its surplus funds as determined by the Minister. The Minister has confirmed that the OSC is not required to remit its surpluses subject to appropriate terms and conditions to be agreed with the Ministry. The OSC has committed to re-evaluate its fee levels every three years and to take into account any accumulated surplus in setting fees for the ensuing period. Any deficits will be funded either through surpluses previously generated or that may be generated in the future, or from the OSC's reserve.

Analysis of Operating Results

2006 Actual versus 2006 Budget

(Thousands)	2006 Actual	2006 Budget
Revenues	$ 83,050	$ 67,062
Expenses	$ 65,823	$ 66,963
Excess of Revenue	$ 17,227	$ 99
Capital Expenditures	$ 2,439	$ 2,989

Excess of Revenue over Expenses

Our budget was for an excess of revenue over expenses of $99K in 2006. Our actual excess was $17.2 million. Revenues were $16 million higher than budget primarily due to higher than expected participation fees ($13.2 million) and the return by CDS. Inc. (CDS) of $964K of the contribution made in 2005 to be used for improving the System for Electronic Disclosure by Insiders (SEDI) as CDS is not leading this phase of the enhancements.

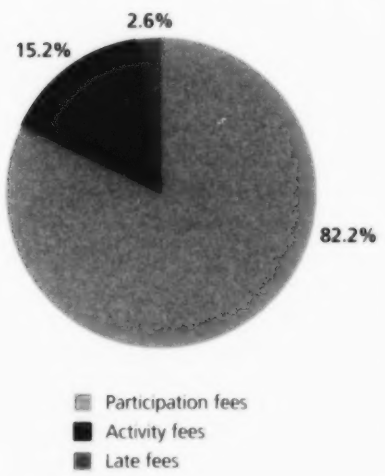
Revenues

(Thousands)	% of Total Fees	2006 Actual	2006 Budget	Change	% Change
Participation fees	82.2	$ 65,759	$ 52,562	$ 13,197	25.1
Activity fees	15.2	12,127	11,566	561	4.9
Late fees	2.6	2,093	1,500	593	39.5
Total fees	100.0	79,978	65,628	14,350	21.9
Investment income		1,872	1,339	533	39.8
Miscellaneous		1,200	95	1,105	1163.2
Total revenues		$ 83,050	$ 67,062	$ 15,988	23.8

Certain columns in this and subsequent tables may not total due to rounding.

Figure 1 shows the sources of OSC fees:

Figure 1 – OSC Fees by Type



Participation fees are the largest revenue source, accounting for 82.2% of fees. Actual fees earned exceeded budget by $13.2 million. Issuer participation fees were $7.9 million above plan. We were expecting fees to decline by about $10.4 million due to the elimination of the one-time timing impact from the introduction of NI 51-102 *Continuous Disclosure Obligations* (NI 51-102). The expected reduction in fees did not occur due to unanticipated revenue increases generated by higher than expected growth in the number and the market capitalization of issuers. Registrant participation fees were $5.2 million above plan. The increase was due to growth in registrant firm revenues which generates higher participation fees.

Activity fees accounted for 15.2% of total fees. Issuer activity fees were $204K over plan due to higher than expected fees from private placements. These were partially offset by a lower than expected volume of filings for relief and filings of preliminary and/or final prospectuses. Registrant activity fees were $355K over plan due to higher than expected registrations of directors, officers and salespersons.

Late fees accounted for 2.6% of fees and were greater than planned by $593K, or 39.5%. The variance occurred because:

- filing of interim and annual statements ($146K) and issuer participation fees ($140K) were greater than plan because NI 51-102 accelerated the filing deadline for issuers and more issuers than expected missed the deadline.
- filing of notices of changes for Registrants were $174K greater than plan due to the volume of activity.

Investment income generated by deposits and other investments was $533K or 40% above plan. The positive variance occurred due to slightly higher interest rates combined with higher than expected cash balances. Interest on cash balances generated $926K (2005 – $715K). These balances earn interest at a rate of 1.75% below the prime rate or 0.25% below bankers' acceptances. Investments in short and mid term instruments with the Ontario Financing Authority generated $946K (2005 – $820K). The average rate of return on these instruments was 2.96% which was 39 basis points higher than in 2005.

Miscellaneous revenues were $1.2 million versus a budget of $95K. The variance was due to the return by CDS of $964K of the contribution made in 2005 to be used for improving SEDI as CDS is not leading this phase of the enhancements.

Expenses

(Thousands)	2006 Actual	2006 Budget	Change	% Change
Salaries and benefits	$ 48,871	$ 48,901	$ (30)	– 0.1
Administrative	5,263	4,966	297	6.0
Occupancy	4,570	4,748	(178)	– 3.8
Professional services	3,827	4,329	(502)	– 11.6
Amortization	2,329	2,679	(350)	– 13.1
Other	963	1,340	(377)	– 28.1
Total expenses	$ 65,823	$ 66,963	$ (1,140)	– 1.7

Salaries and benefits spending were on budget. Savings due to vacancies and delays in hiring were offset by higher than expected costs for severance. The OSC conducted a detailed job evaluation and compensation review in 2006. The salary adjustments arising from the results of this process also exceeded the budget. The OSC public salary disclosure (calendar 2005) is available on the Ontario Government website: www.gov.on.ca.

Administrative costs were $297K over budget. Commission expenses were $338K higher than budgeted. This reflected higher than expected governance and policy related activities by commissioners as well as the impact of changes to the per diems for part-time Commissioners. Training was lower by 27% or $207K as planned activities were deferred due to other workload priorities. Actual recruitment costs ($135K) were 50% below budget due to the use of lower cost recruiting alternatives.

Occupancy costs were lower due to reduced maintenance costs and lower than expected security monitoring costs.

Amortization costs were $350K under budget due to unplanned asset disposals and a revision to the budget calculation.

Professional services costs were 11.6% under budget. Spending on enforcement related matters was $924K or 60.6% higher than expected due to higher than expected activity on various high profile cases. A total of $684K in professional services costs related to enforcement were recovered from various matters that were settled during the year. Other professional services spending was $952K or 32% lower than planned because of delays in internal audit activities, deferred information technology initiatives and slower than expected progress on various projects. In other cases such as knowledge management, internal resources were used, reducing the cost of consulting services.

Other expenses were lower by 28.1% or $377K. Certain travel either came in under budget or did not take place. International Organization of Securities Commissions (IOSCO) related travel was lower. As well, costs for compliance staff travel within the province were lower as staff efforts were more focused in the GTA than planned.

2006 Actual versus 2005 Actual

(Thousands)	2006 Actual	2005 Actual
Revenues	$ 83,050	$ 65,755
Expenses	$ 65,823	$ 61,629
Excess of Revenue	$ 17,227	$ 4,126

Excess of Revenue over Expenses

The excess of revenue over expenses for 2006 was $17.2 million (2005 – $4.1 million) up $13.1 million from 2005. This resulted primarily from the $14.9 million fee rebate that was recorded in 2005, partially offset by higher expenses related mostly to higher salaries and benefits. Revenues and expenses are discussed in more detail below.

Revenues

(Thousands)	% of Total Fees	2006 Actual	2005 Actual	Change	% Change
Participation fees	82.2	$ 65,758	$ 64,009	$ 1,749	2.7
Activity fees	15.2	12,127	12,436	(309)	– 2.5
Late fees	2.6	2,093	2,000	93	4.6
Total fees	100 0	79,978	78,445	1,533	2.0
Rebate of fees			(14,935)	14,935	N/A
Investment income		1,872	1,535	337	22.0
Miscellaneous		1,200	711	489	68.8
Total revenues		$ 83,050	$ 65,755	$ 17,295	26.3

Revenues for the year were $83.1 million, up $17.3 million from 2005. The increase primarily reflects the $14.9 million fee rebate that was recorded in 2005. The balance of the variance is related to the following:

Participation fees for registrants were higher due to a 22% growth in registrants' revenues. Issuer participation fees were lower because the implementation of NI 51-102 in April 2004 resulted in higher participation fee revenue in 2005, as some issuers paid fees twice during the year.

Activity fees were lower by $309K reflecting a lower level of prospectuses filed as well as lower volumes for a broad range of fee categories.

Late fees for late SEDI filings generated $944K or 45.1% of total late fees. In 2005, late fees for late SEDI filing generated $1.1 million or 56.3% of total late fees.

Investment income was higher related to the higher cash balances and interest rates. Interest on cash balances generated $926K (2005 – $715K). Investments in short and mid term instruments with the Ontario Financing Authority generated $946K (2005 – $820K). The average rate of return on these instruments was 2.96% which was 39 basis points higher than in 2005.

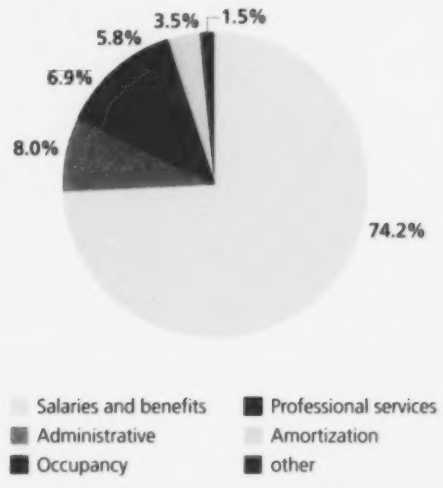
Miscellaneous revenue was greater related to the net effect of the $964K returned to the OSC by CDS (representing the return of the contribution the OSC made to CDS for SEDI improvements) less $456K recovered last year from the Autorité des marchés financiers for their portion of the National Registration Database (NRD), recorded last year.

Expenses

(Thousands)	% of Total Expenses	2006	2005	Change	% Change
Salaries and benefits	74.2	$ 48,871	$ 44,287	$ 4,584	10.4
Administrative	8.0	5,263	5,648	(385)	– 6.8
Occupancy	6.9	4,570	4,037	533	13.2
Professional services	5.8	3,827	3,232	595	18.4
Amortization	3.5	2,329	3,267	(938)	– 28.7
Other	1.5	963	1,158	(195)	– 16.8
Total expenses	100.0	$ 65,823	$ 61,629	$ 4,194	6.8

Total expenses for 2006 (Figure 2) increased 6.8% to $65.8 million (2005 – $61.6 million).

Figure 2 – OSC Expenses by Type



The key contributors to the expenditure increase were as follows:

Salaries and Benefits costs increased by 10.4% to $48.9 million (2005 – $44.3 million) and accounted for 74.2% (2005 – 71.9%) of total OSC expenses. Key contributors to this increase were the impact of job evaluation and other annual salary adjustments ($1.9 million), higher costs for bonuses ($362K) and severance costs ($1.1 million). The full year cost impact of staff hired during the year in 2005 also contributed to the increase. Because we operate in a competitive environment for professional talent, our compensation system includes performance-based incentives. These incentives represented 8.8% of our total salaries and benefits costs.

Administrative costs accounted for 8.0% (2005 – 9.2%) of the OSC's total expenses. Expenditures on administrative costs decreased by 6.8% to $5.3 million (2005 – $5.6 million). Spending for training declined by 16.9% to $550K (2005 – $662K). Commission related expenses rose 43.5% to $1.1 million (2005 – $758K). The increase is due to a greater volume of governance and policy related activities by commissioners and an increase in per diems for part-time commissioners. The number of matters before the Commission increased by 9.7% to 34 (2005 – 31). The number of hearing days decreased 18.3% to 67 (2005 – 82). Communications costs were 11.4% higher at $1.4 million (2005 – $1.2 million). Key contributors to this increase were higher costs for Investor Communication initiatives and Enforcement related printing.

Occupancy costs accounted for 6.9% (2005 – 6.6%) of the OSC's total expenses. Expenditures on occupancy increased $533K or 13.2% to $4.6 million. The increase reflected the impact of higher lease costs and the acquisition of additional space late in 2005 to accommodate staff growth.

Professional Services costs increased 18.4% from $3.2 million to $3.8 million and accounted for 5.8% (2005 – 5.2%) of the OSC's total expenses.

($ Millions)	2006	2005
Actual costs	4.5	3.5
Less recoveries of costs	0.7	0.3
Net Professional Services	3.8	3.2

The increase in actual costs related to increased enforcement work. Approximately $1.8 million in net professional services was for enforcement-related matters including the use of external legal and forensic accounting resources and other specialized expertise.

The OSC is a member of the Canadian Securities Administrators (CSA), which is a forum of provincial securities regulators. Total CSA spending on shared projects was $1.9 million in 2006 (2005 – $1.9 million), of which the OSC contributed $787K (2005 – $755K). Professional services include costs to operate CSA offices (allocated on a formula basis) as well as our portion of costs for all professional services costs incurred on joint CSA projects.

A central secretariat co-ordinates all CSA projects, including the development of harmonized securities policies and rules. A CSA systems office manages the CSA's business relationships with third party technology providers. In 2006, the OSC contributed $193K (2005 – $175K) to the cost of the CSA Secretariat and $211K (2005 – $208K) to the cost of the systems office.

Key initiatives funded through this process included:

Investor education initiatives	$ 230K
Uniform securities transfer legislation	$ 144K
National Registration System	$ 122K
National cease trade order system	$ 106K
Joint Forum initiatives	$ 100K

Amortization costs accounted for about 3.5% (2005 – 5.3%) of the OSC's total expenses. Amortization expenses decreased to $2.3 million (2005 – $3.3 million) due to the fact that the leasehold improvements related to the major renovations completed before 2003 are completely amortized.

Other expenses, which reflect travel and related expenses, declined by $195K or 16.8% to $963K million (2005 – $1.2 million) and accounted for 1.5% (2005 – 1.9%) of the OSC's total expenses. Less travel to support our international work with IOSCO, reduced compliance staff travel within the province and other planned travel that did not take place due to other priorities were the key sources of this decrease.

Liquidity and Financial Position

Liquidity

The OSC has sufficient liquidity to finance its operations and capital purchases. Our cash position improved by $19.3 million or 52.8% in 2006. Cash flows from operations were $21.6 million. Purchases of capital assets used $2.4 million.

As at March 31, 2006, the OSC held $55.9 million (2005 – $36.6 million) in cash, had current assets of $57.7 million (2005 – $38.4 million) and current liabilities of $10.1 million (2005 – $8.4 million) for a current ratio of 5.7:1 (2005 – 4.6:1). Our general surplus increased by $17.2 million, reflecting our excess of revenues over expenses. The fee schedule for the next three years was designed to generate deficits over the period in order to draw down this surplus. This will reduce liquidity.

Reserve

Our fee structure has reduced the potential for significant fluctuations in revenues arising from market volatility. Revenue generation remains a source of risk for the OSC as all revenues are still correlated to market activity to some extent. To manage this uncertainty, the OSC has a $20 million reserve as an operating contingency for revenue shortfalls or unexpected expenses. The OSC has an additional $12.0 million reserve that may only be used to offset costs incurred related to the proposed merger of the OSC with the Financial Services Commission of Ontario.

The rate of return on investments is low as the funds are invested in treasury bills. The prime investment consideration for the reserve is the protection of capital and the appropriate liquidity to meet unanticipated cash flow needs. The OSC records income generated by the reserve into general operations.

Accounts receivable

Accounts receivable were essentially unchanged at $1.5 million. Outstanding late fees, which accounted for 13% of accounts receivable, decreased 44% to $521K (2005 – $936K) due to more active collection efforts and an increase in our allowance for doubtful accounts. Other key receivables are interest receivable $554K (2005 – $377K) and $128K from the Investor Education Fund (IEF) (2005 – $120K).

Designated settlements

In 2006, the OSC approved $2.2 million in designated settlements arising from enforcement proceedings. Funds that are received as a result of settlements may, under the terms of the settlement, be designated to or for the benefit of third parties such as the IEF which the Commission established five years ago. Funds that are not designated at the time of the settlement are paid to the Consolidated Revenue Fund of the Government of Ontario. The IEF's objectives are to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. A Board of Directors governs the IEF and is responsible for developing criteria for, and approving, the disbursement of funds.

The OSC currently holds $4.7 million in designated settlements. Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated settlement funds. The Minister retained the right to impose guidelines for the allocation process. The OSC will continue to seek Ministerial approval for designated settlements exceeding $1 million approved prior to the amendment. The OSC is currently seeking Ministerial approval to transfer $1.9 million of these designated settlement balances to third parties.

Funds in trust, CSA

Since 2005, the Commission has received $8.6 million from the operator of the System for Electronic Document Analysis and Retrieval (SEDAR), representing the accumulated surplus from the operations of SEDAR from its inception. Interest earned on these funds in 2006 was $204K. These funds are held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers, and shall be used towards one or more of the following actions:

- development or enhancement of SEDAR;
- development or enhancement of the System of Electronic Disclosure by Insiders (SEDI);
- to permit a reduction in the SEDAR fee schedule;
- for application towards a previous year's shortfall.

Capital expenditures

Capital expenditures during 2006 included:

(Thousands)	2006	2005	% Change
Furniture and Equipment	$ 372	$ 191	94.8
PC's, Laptops and other IT equipment	1,148	1,388	– 17.3
Leaseholds and other capital items	919	473	94.3
Total	$ 2,439	$ 2,052	18.9

Capital assets were essentially unchanged at $ 4.0 million. Capital expenditures of $2.4 million (2005 – $2.1 million) were made during 2006. About 47.1% of the purchases were technology related ($1.1 million), including equipment purchased for increased staff complement and replacement of computer equipment to ensure the currency of our technology base. Leasehold improvements for additions to and consolidation of our leased space accounted for 37.7% of capital spending and furniture and equipment accounted for the remainder.

Liabilities

Accounts payable and accrued liabilities increased 17.6% to $9.9 million (2005 – $8.4 million). Key accrual increases included bonuses and severance ($1.3 million), vacations ($151K) and a $220K increase in our payroll accrual. General payables declined by $207K.

Other long term liabilities of $1.2 million (2005 – $1.1 million) represents future obligations relating to supplementary pension plans. The unfunded supplemental pension plans had an accrued benefit obligation of $1.2 million (2005 – $967K) at March 31, 2006. The OSC's related expense for the year was $170K (2005 – $187K) and is included in salaries and benefits.

Risks and Uncertainties

Operational Risk

The OSC has policies and processes to identify, manage and control operational risk. Key components of our operational risk approach include:

- a Board of Directors responsible for sound corporate governance.
- independent third party internal auditors who, through periodic, risk-based audits, are responsible for verifying that significant risks are identified, assessing the appropriateness of our controls and recommending changes as required.
- a strong internal control environment which includes separation of duties between key functions and defined authorization controls.
- our Chief Economist group works with our program areas to develop risk-based solutions for their operations.
- we mitigate risk to our assets through insurance where practical and appropriate.
- regular reviews of our systems security measures to monitor our controls and identify potential vulnerabilities against external parties accessing our data.

We also monitor and manage operational risk through activities such as business continuity planning and risk-based approaches to compliance.

Business continuity

The OSC has a Business Continuity Plan to ensure the continuation of critical regulatory services should the OSC face a significant disruption to its operations. Detailed business continuity plans are in place for each priority business function. Each plan includes documented recovery procedures including manual workarounds and mitigation strategies. Offsite recovery services and facilities are in place and were successfully tested during 2006. We are currently finalizing our plan to include strategies to recover and resume our operations for various disruption scenarios (such as a pandemic) that could limit our access to our staff or render our offices unusable for an extended period.

Risk-based compliance

Risk-based approaches are being used for disclosure review and compliance. Our Corporate Finance group continue to enhance their risk-based screening procedures so that a substantial proportion of their review population receives some form of meaningful assessment each year, while ensuring that they only invest our resources into a full review when it is merited. The group completed 477 reviews or 35% of Ontario-based reporting issuers this year.

Our Investment Funds group recently initiated reviews of continuous disclosure filings made under NI 81-106, *Investment Funds Continuous Disclosure*. As part of this process, staff is compiling a list of compliance issues, which vary depending on the nature of the fund reviewed, with a view to developing a risk-based process for these reviews.

Enforcement also uses a risk-based approach to ensure cases that are brought forward are subject to consistent scrutiny, involve significant breaches of Ontario securities law, and give appropriate consideration to Commission priorities.

Reputational Risk

The OSC actively manages its reputational risk through its governance practices, various policies and procedures and by its code of conduct (Bylaw 2). The activities of our Communications branch and our offices of the General Counsel, Corporate Secretary and Policies and Projects are key participants in managing our reputational risk.

People risk

As a knowledge-based entity our ability to attract and retain people is critical to our success. We track a range of measures (e.g., turnover, compensation surveys) to manage this risk. Turnover increased to 44 staff or 11.6% from 34 staff or 8.9% in 2005. Knowledge management is a key focus and we continue to pursue initiatives to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

National approaches to securities regulation

The implications of the ongoing national discussions on approaches to securities regulation in Canada are a source of uncertainty and could have a material impact on OSC operations.

Reliance on CDS

CDS operates a number of major systems on behalf of the CSA and the OSC. The NRD system was launched on March 31, 2003. The current operating agreement for the NRD expires March 2009. SEDI became fully operational in May 2003. The current operating agreement for SEDI runs until May 2010.

CDS recovers its costs to operate these systems by charging user fees to filers. In 2006, 89.8% (2005 – 90%) of our fee revenue was collected through national systems: SEDAR (49.5%) and the NRD (40.3%). No material change is expected in the volume of fees collected through these systems.

If CDS becomes unwilling or unable to operate one or all of these systems, the OSC and the CSA will need to ensure the continued operation of these systems as disruptions in processing our fees through these systems would materially affect our cash flows.

2007 Outlook

Our 2006/2007 Statement of Priorities sets out our priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The proposed 2006/2007 budget will allow us to move toward achievement of the following goals:

- Provide fair, vigorous and timely enforcement
- Take actions to better understand and address the needs of the retail investor
- Promote a harmonized, simplified and strengthened securities regulatory framework for Canada
- Work to achieve appropriate regulatory integration of North American and global capital markets
- Support and promote a more flexible, efficient and accountable organization

Our 2006/2007 budget reflects our plan to return surplus funds earned during the past three years to our stakeholders by way of reduced fees. As a result, we are projecting a deficit of $12.2 million in 2007.

2007 Budget versus 2006 Actual

(Thousands)	2006 Actual	2007 Budget	Change	% Change
Revenues	$ 83,050	$ 60,016	$ (23,034)	– 27.7%
Expenses				
OSC Operations	65,752	70,275	4,523	6.9%
SEDI Modernization	71	1,893	1,822	2566.2%
Excess of Revenue	$ 17,227	$ (12,152)	$ (29,379)	
Capital Expenditures	$ 2,439	$ 1,284	$ (1,155)	– 47.4%

Revenues

In 2006, $83.0 million was earned in revenue. The OSC remains committed to ensuring that fees paid by issuers and registrants reflect the projected costs to regulate each group. Our new fee schedule became effective April 1, 2006. In setting the new activity fees we reviewed each service activity and its related cost. Participation fees were set at levels to generate a cumulative deficit equal to the forecast surplus collected from market participants as at March 31, 2006.

The chart below sets out the 3-year projections that were used in developing the new fees, as projected at January 2006. The forecast reflected management's best estimates at the time and is subject to material change.

(Thousands)	2006/2007	2007/2008	2008/2009
Opening Surplus	$ 39,500	$ 27,500	$ 14,100
SEDI Modernization Commitment	1,900	–	–
	$ 41,400	$ 27,500	$ 14,100
Projected Revenues	58,300	60,000	63,000
Projected Expenses	(70,300)	(73,400)	(77,000)
Projected SEDI Modernization Costs	(1,900)	–	–
Projected Surplus	$ 27,500	$ 14,100	$ 100

The budget does not anticipate a material change in the level of market activity. Although our fee structure is designed to reduce the potential for significant fluctuations in revenues arising from market volatility, the potential for material market fluctuations due to world events is an ongoing source of risk that could have a negative impact on OSC revenues. OSC revenues are expected to be $60.0 million or 27.7% lower in 2007. The revised fee schedule will affect stakeholders differently in order to better reflect the services they receive and the benefits they derive from participating in Ontario's capital markets.

Total participation fees paid by issuers are forecast to decline by 39.3%. Total participation fees paid by registrants are forecast to rise by 5.1%. Total activity fees are projected to decline by 10.9%. Late fees are forecast to fall by 32.8%. Investment income is forecast to fall by $200K due to expected lower cash balances.

Expenses

Salaries and benefits costs are projected to rise 5.5% to $51.6 million (2006 – $48.8 million) accounting for 44% of the total budget increase. This increase reflects a decision to increase approved staffing by 3% from 412 to 424. The areas with the largest increases are compliance and enforcement. The rest of the increase is generated by annual performance related changes to salaries of current staff, additional bonus requirements arising from staff growth and the annualized impacts of various in-year staff changes and vacancies.

Administrative costs are expected to rise by 18.9% or $994K. Staff training is projected to increase by $480K primarily due to plans to increase management training and the cost of the bi-annual Mutual Reliance Review System training with other CSA staff. This training enhances the consistency of review approaches used by staff across all CSA jurisdictions. Training was also underspent against budget as planned activities were deferred due to other workload priorities. Other planned cost increases are Commissioners' costs ($157K), recruitment expenses ($105K) and IT maintenance ($247K).

Occupancy costs are projected to rise 14.4% to $5.2 million (2006 – $4.6 million) due to higher lease-related operating costs.

Amortization costs are expected to decline 24.6% to $1.8 million for 2007 (2006 – $2.3 million) reflecting a reduced capital base.

Professional services costs are projected to rise 18.6% to $4.5 million for 2007 (2006 – $3.8 million). Our share of the costs for CSA shared projects is expected to rise by $385K. The budget includes a stakeholder survey ($100K) and $519K primarily for CSA contingency costs and potential freedom of information policy work. These increases will be partially offset by an expected decline in external consultant costs for enforcement litigation activity.

Other expenses are forecast to increase 33.5% to $1.3 million (2006 – $1.0 million). Increased travel costs for various CSA initiatives (e.g., Highly Harmonized Securities Legislation) and IOSCO related travel are the key sources of the increase. Higher costs are also expected due to a return to traditional compliance field work in Capital Markets involving travel throughout Ontario.

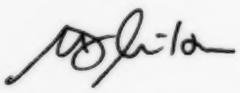
Capital expenditures are budgeted at $1.3 million, 47.4% lower than the $2.4 million spent in 2006. Minor renovations for new staff will require spending for leasehold improvements ($50K) and related furniture ($50K). Information technology-related capital expenditures in 2007 will remain virtually unchanged at $1.2 million.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion.



David Wilson
Chair and Chief Executive Officer

May 12, 2006

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

AUDITOR'S REPORT

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2006 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J. R. McCarter, CA
Auditor General

May 12, 2006
Toronto, Ontario

BALANCE SHEET

As at March 31

	2006	2005
ASSETS		
CURRENT		
Cash	$ 55,900,077	$ 36,588,846
Accounts receivable	1,469,999	1,486,721
Prepaid expenses	337,761	361,776
	57,707,837	38,437,343
DESIGNATED SETTLEMENTS (Note 3)	4,700,795	2,501,008
FUNDS IN TRUST (Note 4)	8,865,176	5,998,785
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Notes 6, 13(b))	4,017,062	4,022,511
	$107,290,870	$ 82,959,647
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 9,927,782	$ 8,441,504
Current portion of obligation under capital leases (Note 13(b))	139,215	–
	10,066,997	8,441,504
NON-CURRENT		
Obligation under capital leases (Note 13(b))	295,931	–
Other long term liabilities (Note 7(b))	1,231,788	1,114,747
	11,594,716	9,556,251
DESIGNATED SETTLEMENTS (Note 3)	4,700,795	2,501,008
FUNDS IN TRUST (Note 4)	8,865,176	5,998,785
SURPLUS		
OPERATING		
General (Notes 8, 9)	50,031,939	32,805,359
Reserve (Note 5)	32,000,000	32,000,000
	82,031,939	64,805,359
CONTRIBUTED	98,244	98,244
	82,130,183	64,903,603
	$107,290,870	$ 82,959,647

Investor Education Fund (Note 10)
Commitments and Contingencies (Notes 11,13)
See accompanying notes to Financial Statements

ON BEHALF OF THE BOARD OF THE COMMISSION

David Wilson
Chair

David L. Knight, FCA
Commissioner

STATEMENT OF OPERATIONS AND OPERATING SURPLUS

For the year ended March 31

	2006	2005
REVENUES		
Fees (Note 8)	$ 79,977,793	$ 78,444,824
Rebate of fees (Note 8)	–	(14,935,360)
Investment income	1,872,001	1,534,933
Miscellaneous (Note 9)	1,199,757	710,907
	83,049,551	65,755,304
EXPENSES		
Salaries and benefits (Note 12)	48,871,068	44,286,613
Administrative	5,262,735	5,648,855
Occupancy (Note 13(a))	4,569,769	4,036,881
Professional services (Note 12)	3,826,706	3,231,901
Amortization	2,329,622	3,266,928
Other	963,071	1,158,059
	65,822,971	61,629,237
EXCESS OF REVENUES OVER EXPENSES	17,226,580	4,126,067
OPERATING SURPLUS, BEGINNING OF PERIOD	64,805,359	60,679,292
OPERATING SURPLUS, END OF PERIOD	$ 82,031,939	$ 64,805,359
Represented by:		
General	$ 50,031,939	$ 32,805,359
Reserve	32,000,000	32,000,000
	$ 82,031,939	$ 64,805,359

See accompanying notes to Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended March 31

	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenues over expenses	$ 17,226,580	$ 4,126,067
Adjustment for gain on disposal of capital assets	(29,608)	–
Adjustment for amortization	2,329,622	3,266,928
	19,526,594	7,392,995
Changes in non-cash working capital:		
Accounts receivable	16,722	(59,013)
Prepaid expenses	24,015	104,147
Accounts payable and accrued liabilities	1,486,278	363,954
Obligation under capital leases	435,146	–
Other long term liabilities	117,041	186,687
	2,079,202	595,775
	21,605,796	7,988,770
Cash flows from investing activities		
Proceeds from sale of capital assets	144,625	–
Purchase of capital assets	(2,439,190)	(2,052,416)
	(2,294,565)	(2,052,416)
NET INCREASE IN CASH POSITION	19,311,231	5,936,354
CASH POSITION, BEGINNING OF PERIOD	36,588,846	30,652,492
CASH POSITION, END OF PERIOD	$ 55,900,077	$ 36,588,846

See accompanying notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

1. NATURE OF THE CORPORATION

The Ontario Securities Commission (the "Commission") is a corporation without share capital and functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Investments

Investments are carried at cost, which approximates market value.

b) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

c) Revenues

Fees are recognized when earned which is normally upon receipt.

Recoveries of costs of investigations are recorded as offsets to the relevant expense upon date of decision, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members as described in note 7(b). The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in note 14(c).

e) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

3. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The balance includes a settlement for $1,900,000, which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account. As at March 31, 2006, the accumulated balance is determined as follows:

	2006	2005
Opening balance	$ 2,501,008	$ 2,000,711
Settlements	2,166,560	787,105
Uncollected Settlements written off	(89,400)	–
Interest	122,627	46,751
Payments – Investor Education Fund	–	(333,559)
Closing balance	$ 4,700,795	$ 2,501,008
Represented by:		
Cash	$ 4,655,125	$ 2,406,850
Receivables	45,670	94,158
	$ 4,700,795	$ 2,501,008

4. FUNDS HELD IN TRUST

During the year, the Commission received $2,662,845 from the operator of the System of Electronic Data Analysis and Retrieval ("SEDAR"), representing the accumulated surplus from the operations of SEDAR, bringing the total received to $8,606,532 since its inception. As at March 31, 2006, interest earned on these funds was $258,644. These funds are to be held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers, and shall be used towards one or more of the following actions:

i) The development or enhancement of SEDAR;
ii) The development or enhancement of the System of Electronic Disclosure by Insiders ("SEDI");
iii) To permit a reduction in the SEDAR Fee Schedule;
iv) The application towards a previous year's Shortfall, as described in note 11(a).

5. RESERVE

a) As part of the approval of its self-funded status, the Commission was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2006, have been invested in three month and one year Government of Ontario treasury bills with the Ontario Financing Authority.

b) In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001. At March 31, 2006, legislation has not yet been introduced.

The Commission received approval from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and
ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

c) Reserve fund investments are carried at cost as described in Note 2(a). The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Office furniture	$ 3,382,744	$ 2,727,926	$ 654,818	$ 621,511
Office equipment	295,047	293,448	1,599	46,089
Computer hardware and related applications	12,954,873	10,945,106	2,009,767	2,332,452
Leasehold improvements	7,221,572	5,870,694	1,350,878	1,022,459
	$ 23,854,236	$ 19,837,174	$ 4,017,062	$ 4,022,511

7. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2006 was $2,498,157 (2005 – $2,294,755) and is included in salaries and benefits.

b) The unfunded supplemental pension plans for the Commission's current and former Chair and Vice-Chairs had an accrued benefit obligation of $1,217,986 at March 31, 2006 (2005 – $966,712) and an accrued benefit liability of $1,231,788 (2005 – $1,114,747). The Commission's related expense for the year was $169,999 (2005 – $186,687) and is included in salaries and benefits. Benefits totaling $52,958 were paid during the year (2005 – $0). The average remaining service period of the active members covered by these plans ranges from .25 to 3.88 years at March 31, 2005 (2004 – 1.85 to 4.88 years); the 2005 figures were used for amortization purposes in fiscal 2006. The average life expectancy of the non-active member was 22.48 years at March 31, 2005 (2004 – 23.32 years). The significant actuarial assumptions adopted at March 31, 2006 include a discount rate of 5.0% (2005 – 5.5%) and a rate of compensation increase ranging from 2.1% to 3.0%, as applicable (2005 – 2.1% to 3.0%).

8. FEES

The Commission's fee regime is designed to generate fees that reflect the Commission's cost of providing services to market participants. The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants.

Under this fee model, the Commission sets fees estimated to reflect the cost of regulation over a three-year horizon. In 2005, the Commission issued a one-time rebate of fees of $14,935,360 to expedite the return of surplus to the market participants who funded it. The forecasted General Operating Surplus of $39,500,000 at March 31, 2006 was used to establish a reduced level of participation fees for the following three-year cycle beginning in fiscal 2007.

Details of fees received for the year ended March 31, 2006 are as follows:

	2006	2005
Participation Fees	$ 65,758,682	$ 64,008,748
Activity Fees	12,126,591	12,436,046
Late Filing Fees	2,092,520	2,000,030
Total	$ 79,977,793	$ 78,444,824

9. ENHANCEMENTS TO SEDI

During the year, the Commission received a payment from CDS Inc. ("CDS") in the amount of $964,106. This is a return of the $1.0 million contribution made to CDS last fiscal year for the enhancement of SEDI, less expenses incurred. The funds were returned as CDS is not involved in the current phase of the enhancements.

The returned amount is included in miscellaneous revenue. Expenses of $70,783 were incurred by the Commission in the year for SEDI enhancements. The Commission has committed the remaining amount of the refund of $893,323, plus an additional $1.0 million of its general surplus generated from late fees, earned up to March 31, 2006, for the enhancement of SEDI.

10. INVESTOR EDUCATION FUND

a) The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2006 and 2005 and for the two years ended March 31, 2006 are as follows:

INVESTOR EDUCATION FUND

	2006	2005
Financial Position		
Total assets	$ 4,095,205	$ 5,790,235
Total liabilities	276,959	$ 258,235
Invested in capital assets	788,002	843,804
Available for Fund purposes	3,030,244	4,688,196
Total net assets	3,818,246	5,532,000
	4,095,205	$ 5,790,235
Results of Operations		
Total contributions and interest income	$ 120,886	$ 454,897
Total expenses	1,834,640	1,724,547
Deficiency of revenue over expenses	$ (1,713,754)	$ (1,269,650)
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	$ –	$ 333,559
Cash receipts from third parties	–	59,625
Investment income received	119,996	123,827
Cash paid for initiatives and expenses	(1,416,093)	(1,411,793)
Cash paid for capital purchases	(342,871)	(441,100)
Net decrease in cash position	(1,638,968)	(1,335,882)
Cash position, beginning of period	4,935,262	6,271,144
Cash position, end of period	$ 3,296,294	$ 4,935,262

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorizes transfers of the Commission's Designated Settlements to the Fund in accordance with the Minister's approval and its own authority under the *Securities Act*. In 2006, the Board of the Commission did not authorize any such transfers to the Fund (2005 – $333,559).

ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2006, the Commission incurred costs totalling $553,162 (2005 – $480,417) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $128,234 is owing to the Commission as of March 31, 2006 (2005 – $120,333).

11. COMMITMENTS AND CONTINGENCIES

a) The Commission has committed to paying 45.1% of annual shortfalls resulting from the operations of SEDAR, where SEDAR operating costs exceed revenues. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying a specified percentage of any annual SEDAR deficit. In the current year, there were no SEDAR deficits.

b) The Commission is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time, however Management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the Commission's financial position.

12. RECOVERY OF COSTS OF INVESTIGATIONS

In 2006, the Commission applied $417,327 (2005 – $482,790) in recoveries of the costs of investigations against salaries and benefits and $684,173 (2005 – $260,710) against professional services.

13. LEASE OBLIGATIONS

a) Operating

The Commission is committed to operating lease payments as follows:

2007	$ 4,829,902
2008	$ 4,809,922
2009	$ 4,879,178
2010	$ 4,908,698
2011	$ 4,946,157
Thereafter	$ 6,985,566

b) Capital

During the year, the Commission entered into capital lease agreements for computer equipment. Leases that substantially transfer all of the benefits and risks of ownership of property to the Commission, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. Computer equipment recorded under capital leases are amortized on the same basis as computer hardware and related applications as described in note 2(a). The total interest expense recorded on the lease obligations is $6,135 (2005 – $0). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before March 31, 2009:

Year Ending March 31		
2007	$	157,499
2008		168,879
2009		146,242
Total minimum lease payments		472,620
Less: Amount representing interest at 6%:		37,474
Balance of the obligation	$	435,146

14. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the responsible Minister, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in note 8 and the Commission's plans to set fees in three-year cycles, the Commission is not required to make quarterly remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed with the Ministry.

b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) Costs of post-retirement non-pension employee benefits are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.

OSC Website: www.osc.gov.on.ca

The OSC website features content for consumers, dealers and advisers, public companies and others. Specific sections have been created about the Commission's governance structure, policy and regulation, enforcement, market regulation, investment funds and international affairs. You can also find news releases, speeches and selected frequently used forms. This annual report is posted online in the 'About the OSC' section of the homepage.

OSC Bulletin

The OSC Bulletin is the official record of OSC activity, including, for example, orders and rulings, reasons for decision, news releases and other public notices, requests for comment, and approvals of rules and instruments. The Bulletin is published weekly in print format. The Bulletin is published on behalf of the OSC by Thomson Carswell.

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To see the 12 most recent issues of the OSC Bulletin, go to www.oscbulletin.carswell.com.

Investor Education Fund: www.investorED.ca

The Investor Education Fund offers trustworthy and unbiased investment education to the general public via www.investorED.ca and to students through its Taking Stock In Your Future Teacher program. We also provide funding support to not-for-profit and community organizations. The Investor Education Fund was established by the Ontario Securities Commission and is funded through OSC enforcement settlements. The Fund operates separately from the OSC with its own Board of Directors.

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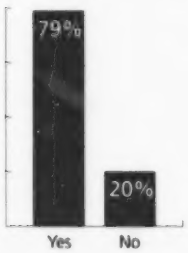

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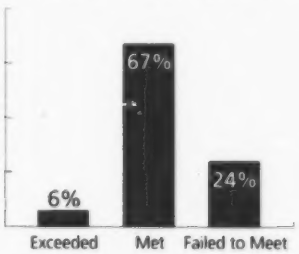

Inquiries Line

Source: 2006 OSC Stakeholder Satisfaction Survey

Strategy and Project Management: Clearwater Communications, Design and Production: Weave Communications, Photography: Geoff George Photography

OSC Inquiries & Contact Centre

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The Contact Centre operates from 8:30 a.m. to 5:00 p.m., Monday to Friday, and can be reached at:

e-mail: inquiries@osc.gov.on.ca
telephone: (416) 593-8314 (Toronto calling area), 1-877-785-1555 (toll-free)
fax: 416-593-8122
mail: Ontario Securities Commission
20 Queen Street West, Suite 1903,
Toronto ON, M5H 3S8

You can also file a complaint by using the online form in the "For the Consumer" section of **www.osc.gov.on.ca**.

To send tips on potential violations of Ontario securities laws, use our TIPS form: **www.osc.gov.on.ca/Tips/tips_form.jsp**

OSC

ONTARIO SECURITIES COMMISSION

2006 Annual Report

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Ontario

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown Corporation accountable to the Ontario Legislature through the Minister responsible for securities regulation.